



August 8, 2014

Ms. Mary John Miller
Undersecretary for Domestic Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: *Public Input on Development of Responsible Private Label Securities Market*

Dear Ms. Miller,

The Securities Industry and Financial Markets Association (SIFMA)¹ is pleased to provide input on Treasury's consultation regarding the development of a functioning private-label securities (PLS) market. SIFMA is a strong supporter of the restoration of private-sector securitization, as the recovery of this market is a necessary component of the broader reinvigoration of the housing system in the United States. SIFMA members were pleased to see the active engagement of the Administration in recent GSE-reform discussions, and we agree that the time is now to review the state of our housing finance system, reform the GSEs, and set a positive direction for the future that helps to maintain credit availability and support the economy's needs. We are pleased that Treasury is making this effort to explore and understand the current state of the PLS market with a goal of fostering improvements to its liquidity and function.

Reflected in your questions is the complexity of this issue. It demands careful analysis of a number of issues: how the regulatory framework governing mortgage lending has changed, how the regulatory framework governing securitization is changing, and how the attitudes and needs of lenders, securitizers, and investors have changed. Securitization market participants still face a great deal of uncertainty as to the future direction of housing policy in addition to questions regarding how the market will be structured. As the answers to these questions take shape, market participants will have a better baseline upon which to plan and make long-term decisions. There are a number of important issues that remain to be addressed, from the role of the government to the role of trustees, and it is appropriate that the Treasury is seeking input.

We would be pleased to discuss any of our responses to your questions in more detail at a time of your choosing. Please do not hesitate to contact me at 212-313-1126 or ckillian@sifma.org to discuss any of our comments in more detail.

Sincerely,

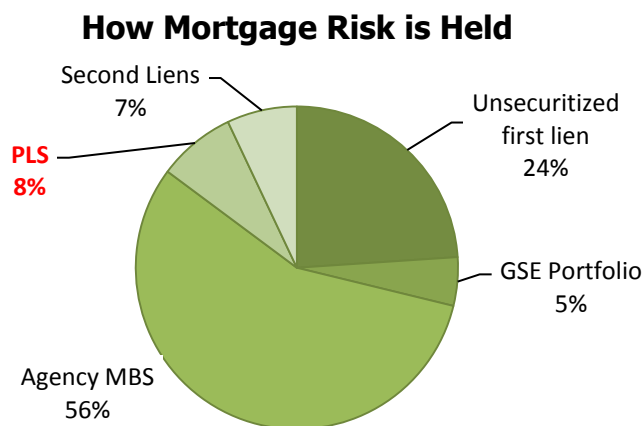
Christopher B. Killian
Managing Director
Head of Securitization

¹ SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

1. *What is the appropriate role for new issue PLS in the current and future housing finance system? What is the appropriate interaction between the guaranteed and non-guaranteed market segments? Are there particular segments of the mortgage market where PLS can or should be most active and competitive in providing a channel for funding mortgage credit?*

§ Comments could address: the role of the government in the mortgage market; access to mortgage credit; cost of mortgage finance; capital available for this type of investment; the source of loans for securitization; product and structure innovation; types of mortgage products; and borrower characteristics.

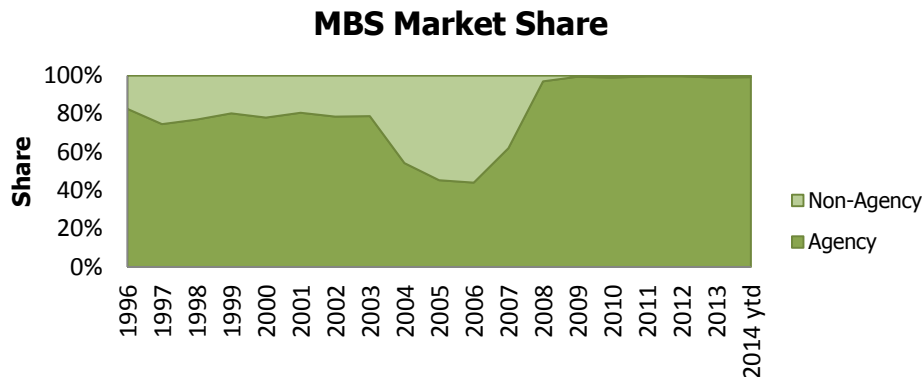
SIFMA believes there are roles for multiple sources of mortgage funding. Today the government directly or indirectly provides most mortgage funding; many of our members believe this role is larger than it needs to be to maintain reasonable access to credit at tolerable prices. SIFMA members believe that private-label securitization (PLS) can -and should- play a bigger role than it does today.



Source: Urban Institute²

The core role the government plays is to (a) ensure access to credit for consumers with weaker credit profiles or specific kinds of consumers (e.g., FHA, VA, RHS), and (b) not hinder the liquidity of the TBA market. The TBA market provides a benchmark for all mortgage markets, and helps to ensure broad availability of 30-year fixed rate mortgages. The scope of this role has expanded greatly since 2008 – FHA lending and Ginnie Mae securitization expanded significantly between 2008 and 2011, and their volumes remain above levels seen in recent years.

² Urban Institute, *Housing Finance At A Glance*, July 2014: <http://www.urban.org/UploadedPDF/413187-Housing-Finance-At-A-Glance-A-Monthly-Chartbook-July2014.pdf>



Source: SIFMA³

While SIFMA believes strongly that the core role of the government described above is essential, we do not argue for maintenance of the 2008-present status quo where the Agency sector dominates mortgage securitization. Rather, we believe there are appropriate roles for both the Agency sector and the private sector. PLS have historically played a role in funding mortgage credit where loan size or other terms may differ from those available in the Agency markets, or where economics dictate that PLS execution is superior. The PLS market may also be more innovative and flexible than the Agency markets in adapting to economic conditions or consumer preferences, or to changing capital markets appetite.

Establishing a balance between the two is a policy challenge that needs to be addressed, and the importance of a smooth transition from the current state to any significantly changed future state cannot be overstated. Policymakers should not look toward rigid targets or limits on market share, but ensure the system is flexible and adaptable to the inevitable ups and downs of the economic cycle. Credit costs and availability may fluctuate along with the economy, but credit should not become broadly unobtainable or unaffordable.

Bank portfolios also play a role for loans that aren't eligible for the government or PLS markets, or loans that banks simply choose to hold as investments in their customers. We note, however, that bank portfolio demand cannot be assumed to be a constant – appetites to hold this risk will change along with economic and regulatory conditions. From a safety and soundness perspective, over-reliance on portfolio holdings of 30-year fixed rate mortgages may not be prudent.



Source: Nomura

³ Data available here: <http://www.sifma.org/research/statistics.aspx>

The most obvious demarcation of the government/private boundary is the level at which FHA and GSE loan limits are set. For example, one of our members has estimated that approximately 55-60% of pre-crisis jumbo loans securitized in PLS now fall under the conforming loan limits, which is significant in and of itself, but more so given that very large loans tended not to be securitized anyway. However, it is not so simple that a reduction of loan limits in a vacuum will restore a fully-functional PLS market in short order. Policymakers should recognize private capital won't be committed overnight and there likely is some practical upper bound to the amount of it available for investment in mortgage credit risk (both relative to the size of the mortgage market, and relative to what most would view as affordable credit terms).

2. *What are the key obstacles to the growth of the PLS market? How would you address these factors? What are the existing market failures? What are necessary conditions for securitizers and investors to return at scale?*

§ Comments could address: structural, operational, economic, regulatory, loan level data, other disclosures, and legal challenges.

§ Challenges may include methods of investor protections; desire for standardization; secondary market liquidity and size; underwriting standards; origination volumes; servicing practices; credit ratings; and risks arising from borrower default.

The continued dormancy of the PLS market is due in part to the lingering effects of poor origination practices during the housing boom. However, the PLS market is also constrained by other factors including market dynamics, regulatory uncertainty, and more generally an inability to out-price the government.

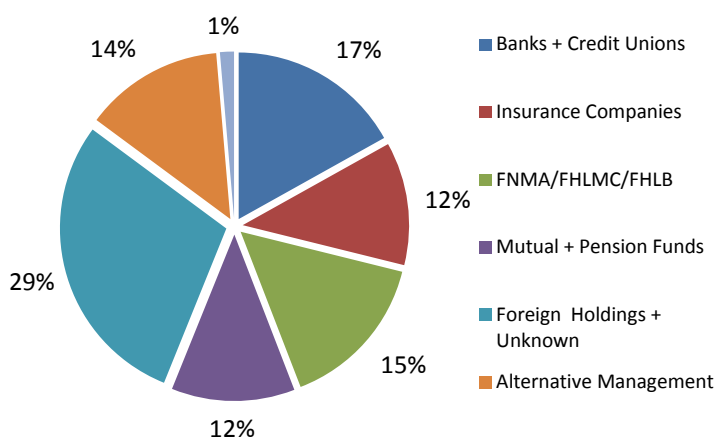
Economics

At the risk of stating the obvious, the core issue of whether or not a loan is held for investment, securitized in the agency market, or securitized in the PLS market is dictated by price execution. For PLS to thrive, the economics of PLS securitization need to work for the originator and issuer, because lenders will utilize the most efficient sources of funding for their activities. This takes into account not only funding costs, but also legal and reputational risk appetites, and expectations of future issuance and liquidity. Today agency MBS pricing is generally superior to PLS execution. The whole loan bid from bank portfolios is also generally better than pricing received from PLS; it should be noted that bank portfolio lending also relies on government support in the form of deposit insurance. Accordingly, those channels currently dominate PLS for comparably sized mortgages. Efforts to improve PLS markets should focus on reducing current roadblocks, leveling the playing field, and increasing the competitiveness of PLS even if the issuance will not rebound to high levels immediately.

Investor Concerns

Lingering effects of the housing bubble still impact the willingness of mortgage investors to commit their capital to the market. Mortgage investors have endured significant losses over the last six years and remain wary of mortgage securitization. SIFMA-member investors continue to express a number of concerns regarding structural weaknesses in PLS processes that pose risks beyond the credit quality of the underlying assets.

Holders of Private-Label Mortgage - Backed Securities (YE2012)



Source: SIFMA analysis, Bank of America Merrill Lynch

Data and Transparency of Cash Flows - Investors believe that improvements to the standardization and accuracy of transaction data disclosure, both at the time of sale and during ongoing reporting, are needed. The SEC's Reg AB2 is expected to address some of these issues through prescriptive application of mandatory loan-level disclosure standards, but it is unclear exactly what shape the final rules may take.

SIFMA's investor members also believe that greater transparency into transaction cash flows is needed, especially related to the clarity of and accuracy of servicer reporting regarding implementation of loss mitigation activities (e.g., inputs for NPV calculations, how losses, expenses and recoveries flow through the waterfall), in particular.

Documentation - SIFMA's investor members also believe that information on securitization structure and documentation should be more accessible and clearer in transaction documents. Again, Reg AB2 is expected to address the timing of delivery of offering materials to investors (to provide a cooling-off period) and may include requirements related to provision of access to computer waterfall models, but it is not expected to standardize structures or documents. Many investors would like more standardization of locations and text of provisions so that blacklines of documents could be reviewed instead of full documents. Many investors would also like greater disclosure of due diligence processes and results.

Enforcement of Terms - Investors do not have confidence in their ability to enforce the terms of PLS transactions, especially with regard to the enforcement of representations and warranties on underlying assets. This has led to calls for a stronger trustee including a fiduciary duty to investors and inclusion of a 3rd party collateral risk manager to examine suspected defective loans. The SEC's Reg AB2 is expected to address the latter issue. Market participants do not agree on timelines for the expiration of representations and warranties, which representations and warranties should expire, or if they should expire at all.

Assignee Liability - Investors are concerned with the prospect of assignee liability stemming from violations of the ability-to-repay rules contained in Title XIV of Dodd-Frank and embodied in the CFPB's implementing regulations. SIFMA has raised concerns with assignee liability in many forms over the years based on the fact that mortgage investors are not at the closing table with the lender and borrower, and should not be held liable for defects of which they have no knowledge or ability to prevent. While efforts were made by policymakers to provide some level of certainty through the inclusion of safe-harbor provisions, no safe harbor is entirely safe, and it is important to note that none of these provisions have been tested in court. It will be in litigation where the market learns the exact boundaries of the protections provided by any safe harbor. This potential liability for

investors is likely to reduce the availability of higher-priced QM loans and non-QM loans, all else equal, due to higher required yields to compensate for the increased risk.

Eminent Domain and Other Ex-Post Policy Changes - Investors have significant concerns with, and continuing distrust of the policy environment because of a sense that rules have been and continue to be changed ex-post. The threat by certain municipalities to use eminent domain to seize performing mortgage loans has been a focus of MBS investors for the last two years and would introduce a significant new risk into investing in PLS. These municipalities propose to cherry-pick loans from PLS trusts and compensate holders at levels far below the actual value of the loans. SIFMA's investor members view such activity as an illegal taking of trust assets, and successful implementation of these plans would severely damage investor confidence in investing in PLS.

Various federal and state legal settlements also have created mistrust among MBS investors and a feeling that they were excluded from discussions about activities that impacted them directly. Similarly, PLS investors, while supporting⁴ loan modifications for troubled borrowers, have also expressed frustration at the process of the creation of the HAMP program and the numerous changes made to the program without inclusion in the decision-making process of investors who were directly impacted.

Foreclosure Timelines - Foreclosure timelines in certain states are extraordinarily long, significantly increasing losses to investors and calling into question the ability of loan owners to access the collateral that secures a mortgage loan in those unfortunate times when it is necessary.⁵

Price Transparency - Many PLS investors believe that the broadening of trade price dissemination through FINRA's TRACE system would be beneficial to PLS investors and the market as a whole. Price transparency is being rolled out across the securitized products space, beginning in the Agency MBS markets, and shortly expected to be implemented in non-mortgage asset-backed securities markets. It is not clear when FINRA will implement dissemination on PLS. Investors believe that FINRA should do so, while taking care to implement it in such a manner that price transparency can be provided while fostering enhancements to the liquidity of the PLS market and not creating disincentives for market makers to provide this liquidity.

Capital Requirements - Bank investor securitization capital requirements are under review by Basel Committee, and are expected to increase. The U.S. LCR does not give any credit to PLS as high-quality liquid assets. According to SIFMA's calculations, at the end of 2012 banks represented about 17% of the PLS investor base, so this is not an insignificant issue.

Liquidity - The PLS market has significantly shrunk over the last 5 years, from a peak of approximately \$2.8TR in mid-2007 to approximately \$1TR today. SIFMA estimates there is only \$30BN of AAA PLS outstanding today.⁶ This dramatic decline in outstanding PLS has reduced liquidity in PLS markets, which causes larger players to remain on the sidelines as they await larger and more regular issuance volumes and liquidity.⁷ Investors will not allocate the necessary resources to analyze PLS if they have no assurance of regular issuance.

GSE Reform - As mentioned elsewhere, the uncertainty around the future of the role of the government in housing finance, and the future of the GSEs impacts all participants in PLS markets. This uncertainty creates questions about future shape, size and nature of the market, and impedes long-term planning and commitments of capital.

⁴ See, e.g., <https://www.sifma.org/news/news.aspx?id=16474>; <http://www.sifma.org/news/news.aspx?id=15900>

⁵ This is also a problem for portfolio lenders, FHA and the GSEs.

⁶ See <http://www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/SF-US-Mortgage-Related-SIFMA.xls?n=55089>

⁷ We note that other factors have also contributed to the decline of liquidity in fixed income markets, including but not limited to increased capital requirements on market makers and other regulatory developments.

Originators, Sponsors & Issuers

Originators, issuers, and sponsors of PLS need to be able to estimate future costs of doing business in order to be willing to commit capital. The current policy environment makes cost estimation difficult. As noted above, the current environment is one of conflicting signals, where demands for more lending are made with the right hand, and criticism of and punishment for past misdeeds is meted out with the left. There is no single authority or agency responsible for housing policy and tasked with keeping the focus on the future and how mortgage markets can be made more efficient and better serve consumers.

Regulation - Also as noted above, the entire mortgage process - from origination to securitization - is still in the process of being re-regulated. Long term decisions can't be made until this is done. What disclosure will be required for a PLS? What risk will need to be retained? Will regulatory limitations on structure be imposed (e.g., premium capture or other restrictions on cash flows)? With respect to any uncertainty, market participants tend to choose the most conservative approach.

- Completed rulemakings include:
 - Ability to repay/QM (but not litigation-tested),
 - Servicing standards (but not litigation-tested), and
 - U.S. implementation of Basel III.
- Incomplete rules include, but are not limited to:
 - Credit risk retention,
 - Reg AB2,
 - Credit rating agency rules,
 - Securitization conflicts of interest rules (Dodd Frank Act section 621),
 - Basel securitization framework capital rules and national implementation (BCBS 269),
 - Liquidity coverage ratio & net stable funding ratio,
 - Implementation of margin requirements for agency MBS (FINRA 4210), and
 - Derivatives rules that may impact clearing/margin requirements for securitization swaps.

We note in particular a recent concern related to the privacy law and reputational risk aspects of loan level disclosure for RMBS. SIFMA's originator, issuer and sponsor members are concerned that an inappropriate approach here could severely limit their incentives or willingness to securitize. SIFMA members believe that the SEC's proposed approach inappropriately places significant risk and liability onto securitization issuers, and many of our members have expressed extreme discomfort with the proposed approach. SIFMA's hope is that the SEC, CFPB, and FTC work together to explore these issues and create a resolution that satisfies investor needs for disclosure, while protecting the privacy interests of the borrowers on loans funded through PLS.

Mortgage Insurance - The mortgage insurance industry became a focal point of concern in the late 2000s. Numerous companies ceased writing new business, and there was much dispute over the payment of claims. Mortgage insurance will be a critical component of the PLS and the reformed conforming markets, but market confidence in the willingness and ability of the mortgage insurance industry to pay claims has not yet been restored.

Ratings - Rating agency enhancement levels remain elevated. While it may be appropriate for there to be generally higher credit support levels than those seen in earlier PLS, we believe they are also elevated due to uncertainty around the amount of risk presented by violations of the ability to repay rules, how much litigation there will be with respect to such violations, and what the outcomes will be. As noted, while the ability to repay rules are final, they are not litigation-tested.

GSE Reform - Issuers, originators, and sponsors face the same long-term planning problems as investors due to the lack of GSE reform. The various pieces of legislation introduced in the last few years propose very different roles of the government, roles of transaction parties, requirements for private capital, and regulatory frameworks

for mortgage lending. Indeed some of the differences are quite stark and would lead to very divergent outcomes. The natural reaction to this is to wait until the picture becomes clearer before committing to complicated and expensive changes to origination platforms, servicing systems, investing and securitization platforms. SIFMA supports efforts of members of Congress and the Administration to move the debate on GSE reform to a necessary conclusion.

Housing Policy and Conflicting Signals

Another obstacle to greater PLS issuance and broader credit availability more generally is the lack of a clear housing policy and conflicting signals from policymakers. For example:

The FHFA and GSEs have, in the last few years, implemented efforts that are aimed at reducing their role in the market, but at the same time making it more challenging for the private market to provide credit. The FHFA raised G-fees with a goal of reducing the footprint of the GSEs. Congress, for its part, imposed a 10bp increase in G-fees to fund other government priorities. The goal of these efforts was to reduce the role of GSE securitization by making PLS more competitive. On the other hand, GSE loan limits remain elevated, there is a QM exemption for GSE-eligible loans, a special QM regime for FHA loans, and PLS are not given credit in the new liquidity coverage ratio rules. This creates a playing field slanted against PLS issuance.

Other actions that have impacted the availability of credit more generally include the GSEs' and FHA's enhanced putback efforts and litigation against seller/servicers. These actions have caused lenders to become more risk-averse. At the same time, the GSEs have attempted to provide clarity regarding representation and warranties and putback risk, but positive impacts of this effort have been slow to materialize. The FHFA and the GSEs have also tried to expand the reach of HARP, and otherwise incent origination activity. These efforts have worked in opposing directions, and a clear signal has not been sent to the market.

Numerous policymakers have exhorted banks to make more loans and publicly spoken about the importance of the loosening of credit terms. On the other hand, perusal of the news finds continual attacks on banks for making too many risky loans in prior years, and a strong desire for punishment and retribution for events of the last decade still lingers. Litigation brought by various branches of the government continues. This dichotomy keeps private capital away as it waits for a less threatening environment.

GSE reform legislation has not moved forward and it appears that it will be some time before it does. The future nature and size of government involvement in housing finance remains uncertain. This creates unforeseeable risks for originators, securitizers, and investors, and delays capital commitments to mortgage markets from each of them. Market participants need to be able to determine the boundaries of the government's role in mortgage finance before they can build a robust and long-term operation to issue or buy PLS.

As discussed above, the regulatory environment is not stable – many rulemakings that will impact PLS have not been finalized. This will continue to negatively impact issuer incentives.

The current environment is one of competing, and sometimes diametrically opposed demands on market participants. A more focused government leadership driving towards a known and broadly-shared goal of a robust, liquid PLS market would be supportive of greater activity in PLS markets.

3. How should new issue PLS support safe and sound market practices?

§ Comments could address: underwriting standards; transparency and disclosure requirements; borrower protections; alignment of interests; and regulatory oversight.

As noted above, SIFMA observes that the entire mortgage lending and securitization process is in the middle of being re-regulated, and the changes that are expected to occur will have a significant impact on the operation of the mortgage finance markets. SIFMA believes it is important to consider the totality of what has been done (and will be done) and its potential impact before demanding even more policy changes.

Mortgage underwriting standards have been strengthened by the ability to repay regulations issued by the CFPB pursuant to Title XIV of Dodd-Frank. Bad origination was at the root of the problems of 2006-2008, and ensuring that underwriting is strong and prudent is likely to be the most critical of changes to the system. The CFPB has also issued servicing standards that apply to all mortgage loans. Taken together, these are substantive and important reforms that should promote a more stable, robust, and safe and sound market for mortgage finance.

The SEC is expected to shortly finalize a number of rules related to securitization disclosure and certain aspects of the offering process that will address issues including but not limited to loan level disclosure and the timing of delivery of offering materials. Based on recent reports, SIFMA also expects risk retention rules to be finalized this year. These two sets of securitization regulations are explicitly aimed at issues that policymakers believed to be flaws in the securitization process and/or regulatory regime.

It is important to keep in mind the extraordinarily high credit quality of recent new-issue PLS - it shows that securitization is being used to fund responsible credit. Securitization is not, as some claim, a tool to offload risky loans onto an unsuspecting investor base. However, it is also clear that the range of credit currently being funded by securitization is not broad enough.

Summary Statistics for 29 PLS Issued Jan 2012 – July 2013

<u>Collateral Metrics</u>	<u>Average</u>
Deal Size	\$405,895,124
Loan Balance	\$800,914
LTV	66.4%
CLTV	67.6%
CLTV > 80	0.48%
FICO	769
Adjustable Rate Loans	3.05%
Full Documentation	100%
Debt-To-Income Ratio	30.55%
Primary Residence	93.03%
Cash-Out Refinance	9.45%
1st Lien	100%
Loans with 2nd Liens	9.79%

Source: Kroll Bond Ratings, SIFMA⁸

Costs of doing business are far higher than they were a few years ago, and this should incent origination of better quality collateral given that the costs of failures to do so have been proven to be quite high. These costs risk driving the focus onto only pristine collateral and leaving many creditworthy consumers without appropriate access to credit. Similarly, while enhanced capital standards are intended to create a more stable and robust banking system, SIFMA believes it is important to ensure that they are not so high as to prevent banks from making otherwise creditworthy loans or investing in responsibly structured securitizations.

- 4. *What are the costs and benefits of various methods of investor protection? In particular, please address the costs and benefits of requiring the trustee to have a fiduciary duty to investors or requiring an independent collateral manager to oversee issuances.***

§ Comments could address: willingness of parties to accept a fiduciary duty; capital requirements and sufficiency; fiduciary duty as a means of addressing conflicts of interest; and alternative methods of investor protection.

⁸ Kroll Bond Ratings Inc., RMBS Transaction Comparison Spreadsheet (July 7, 2014): available here: <https://www.krollbondratings.com/research>

SIFMA members expect that requirements for collateral managers will be included in final Reg AB2 rules, as they were generally supported by the industry. Indeed, SIFMA provided suggestions to improve the SEC's initial proposal. At this time, we do not know exactly what role will be required by the rules. We hope and expect that the SEC took heed of constructive suggestions from the industry.

Though all SIFMA members agree that there should be adequate protections for investors, investors and trustees disagree on the appropriate role, level of activity, and standard of care of the PLS trustee. This has been the source of much conflict and litigation. SIFMA member firms involved in the trustee business oppose imposition of fiduciary obligations on trustees due to concerns that legal uncertainty, expanded risk profile, and other increased costs of doing business as a fiduciary would render their business model uneconomical. SIFMA's investor members believe that trustees should be more active in representing PLS investors and also should have a clear, continuous and enhanced fiduciary obligation to investors. Investors believe that the current framework has proven to be ineffective in representing investor interests, and have indicated that they are unlikely to re-enter the PLS until their interests are effectively represented. These divergent views will require a solution that is acceptable for both parties in order for either group to actively participate in this market.

Regarding bank capital requirements, as we address elsewhere they are increasing and show no signs of coming down. PLS are not treated as high-quality liquid assets in the US version of the Basel LCR, limitations were placed on MSRs as a proportion of tier 1 capital in Basel III, and the Basel Committee's review of its securitization framework appears headed in the direction of yet higher bank capital requirements for securitizations. All in all, this acts as a disincentive for banks to hold PLS and may decrease the liquidity of secondary markets.

5. *What is the appropriate or necessary role for private industry participants to address the factors cited in your answer to Question #2? What can private market participants undertake either as part of industry groups or independently?*

§ Comments could address: methods of achieving agreement around establishment of industry-wide standards; or development and adoption of a limited number of structural options from which securitizers can choose.

Industry groups such as SIFMA and others will continue to engage policymakers such as Treasury, other regulators, and Congress regarding the various regulatory and legislative initiatives that affect securitization. In particular, industry groups will continue to urge regulators to make appropriate haste in bringing to a conclusion the regulatory overhang which currently burdens the securitization markets with much uncertainty.

Industry groups will also continue to engage their members in dialog about various aspects of market function that can be improved, and various standards and best practices that can be agreed among market participants. As Treasury knows, these discussions are difficult, but market participants are committed to taking steps to improve the safety, soundness, and function of PLS markets. However, some market standards and best practices will be determined over time through continued issuance of new transactions. While negotiations in the abstract can be effective on some issues, on others the ultimate determinant of what becomes a market standard will be how counterparties price risk and the actual value of a particular protection or transaction feature.

We note that there is nothing the private market can do to force the government to reduce its role in mortgage markets. The industry can improve various aspects of the securitization process and achieve marginal improvements in market share, but by and large, the private market cannot remove the advantages conferred on government programs such as FHA/Ginnie Mae or the GSEs through the presence of a guarantee, favorable capital treatment, and so on. The private sector also cannot change the relative level of interest rates and funding costs for banks. The government has expanded its role, and will have to reduce its role at the appropriate time in a careful and measured manner.

SIFMA members do not support a general regulatory limitation on structure of transactions. E.g., the industry objected strongly to the so-called premium capture provisions of the first proposal of the credit risk retention rules.

6. *What is the appropriate or necessary role for government in addressing the key factors cited in your answer to Question #2? What actions could government agencies take? Are there actions that require legislation?*

§ Comments could address: suggested role in facilitating resolution of issues impeding the return of an active PLS market; actions that are required from government agencies; and actions that require legislation.

SIFMA members believe that policymakers should continue the active dialog that has begun regarding the appropriate structure of our housing markets, and drive towards a more cohesive view on what is needed from our housing finance system. This process should be holistic, considering what has been done over the last few years and the impacts of those changes and new regulations, and what is needed going forward. A number of specific items should be a part of this:

GSE Reform Should Move Forward - GSE reform should include consideration of the appropriate level of loan limits and underlying credit profile of loans eligible for a government guarantee should be reviewed. Reducing the government's footprint creates room for the PLS market to operate and grow. As discussed previously, SIFMA's investor members believe gov't has a role in defining a stronger role for MBS trustee while other members disagree. In any case, this should be an area of discussion.

Regulations Should be Finalized - The regulatory reform of securitization needs to be finalized, implemented, and stabilized – this includes regulation related to disclosure, risk retention, and prudential issues. This will allow the PLS market to function most prudently and efficiently.

Policyholders Should Always Consider Costs Along With Benefits - Policymakers need to ensure that well-intentioned actions (e.g., redress to consumers injured by past practices) don't have unintended consequences, and need to recognize that benefits to one party invariably result in costs for other parties. Costs to originators and securitizers may be directly passed on and reflected in the cost or availability of credit; in other instances, they may be borne by PLS investors, causing them to turn away from the market or otherwise make PLS a less attractive investment, which also ultimately impacts the cost and availability of credit to consumers.

Policy Risk Should be Mitigated - Policymakers need to take steps to build the confidence of mortgage investors that policy will not unexpectedly shift in the future at a cost to investors. In particular, policymakers should ensure that eminent domain is not used to seize performing mortgages from PLS trusts; at the least, FHA's programs should not be the vehicle by which it is executed. This would represent a fundamental shift in the risk analysis of PLS, undermine the confidence of mortgage investors in the rule of law, and would have broadly negative impacts on all borrowers served by the PLS market.

7. *What are the current pricing characteristics of PLS issuance (both on a standalone basis and relative to other mortgage finance channels)? How might the pricing characteristics change should key challenges be addressed? What is the current and potential demand from investors should key challenges be addressed?*

§ Comments could address: amount and sources of demand for new issue PLS; cost of funding and capital; appropriate parties or processes to address the current pricing of PLS issuance; pricing in other mortgage financing channels.

PLS execution generally comes at a higher all-in "cost" than GSE and portfolio execution today. See Annex 1 for an illustration of this. In terms of competition with Agency MBS execution, low risk is worse than no risk, and a

small float is worse than a large float. Additionally, Agency MBS have a built-in financing mechanism in the dollar roll market.

SIFMA members believe there is a need for senior investors to have a greater appetite for mortgage credit risk in the PLS market. Improvements here should make PLS pricing more favorable and increase liquidity for new-issue PLS. Greater appetite across the capital structure would decrease cost of securitization execution. Demand for mortgage credit risk, as evidenced by GSE risk sharing transactions, has been fairly robust (but one must keep in mind the counterparties to those trades – gov't guaranteed entities).

8. Why have we seen strong issuance and investor demand for other types of asset-backed securitizations (e.g., securitizations of commercial real estate, leveraged loans, and auto loans) but not residential mortgages? Do these or other asset classes offer insights that can help inform the development of market practices and standards in the new issue PLS market?

§ Comments could address: relevant terms, standards, and covenants; key differences in underlying assets; comparisons of structural features; documentation; alignment of interests; relative value, relative risks, and required returns; and examples of other asset classes' emergence and growth over time.

Non-mortgage asset classes generally did not suffer fundamental credit deterioration similar to that experienced by PLS and related products (e.g., CDOs). Default rates of CLOs and most consumer ABS securitizations remained low throughout the crisis, and problems in those markets in 2008-2009 can be more accurately ascribed to liquidity than fundamental concerns about credit. Importantly, the fundamental issue of whether or not the financing is truly secured was not called in to question in these asset classes in the manner it has been with mortgages; e.g., to our understanding there has not been a massive expansion in auto repossession timelines or impairment of servicers of commercial transactions to enforce borrowers' debt obligations.

The fundamental credit deterioration in PLS led to broader problems for the mortgage market because the industry was not structured to deal with the nature and volume of delinquencies and flaws in previous practices were exposed. This created a cycle where these problems led to policy reactions that – while well-intended – in some cases made initial problems worse. I.e., credit deterioration led to servicing and other problems which led to policy responses that in some cases had the impact of constraining credit availability.

The government sponsored side of the mortgage market grew during the crisis, due both to the retreat of private capital and a literal expansion of its footprint through increased loan limits. Other securitization asset classes are not competing against government funding (except student loans), and do not face this competition from government pricing advantages.

9. Is there any additional information regarding the PLS market not already addressed that you would like to provide?

We appreciate Treasury's continued focus on housing finance.

Annex 1 – Best Execution Analysis

Exhibit 2: Best execution analysis: bank portfolios should own the best credits, GSEs wrap medium credits, and FHA owns the high LTVs

Analysis of securitization vs. portfolio execution for sample agency eligible loans. Assumptions: Mortgage rate = 4.25%, servicing multiple = 5x, g-fee purchase multiple = 6.75x; portfolio risk weights by credit are 15%/35%/100%; post tax / expense ROE = 15%; 10% capitalization

Best Credit					Medium Credit					Worst Credit					
GSE	LTV: 55		FICO: 760			LTV: 80		FICO: 740			LTV: 90		FICO: 700		
	GSE	bp	Price	GSE	bp	Price	GSE	bp	Price	GSE	bp	Price			
	G-Fee	0.45%		G-Fee	0.45%		G-Fee	0.45%		G-Fee	0.45%				
	Adverse Delivery Fee		-0.25	Adverse Delivery Fee		-0.25	Adverse Delivery Fee		-0.25	Adverse Delivery Fee		-0.25			
	LLPA		0.25	LLPA		-0.25	LLPA		-1.00	LLPA		-1.00			
	Cost		-2.50	Cost		-2.50	Cost		-2.50	Cost		-2.50			
	Mortgage Insurance	0.00%	0.00	Mortgage Insurance	0.00%	0.00	Mortgage Insurance		-0.90%	Mortgage Insurance		-4.50			
	Servicing	0.25%	1.25	Servicing	0.25%	1.25	Servicing		0.25%	Servicing		1.25			
	Residual coupon	0.05%	0.25	Residual coupon	0.05%	0.25	Residual coupon		0.05%	Residual coupon		0.25			
	Pass-through (July Settle)	3.50%	102.13	Pass-through (July Settle)	3.50%	102.13	Pass-through (July Settle)		3.50%	Pass-through (July Settle)		102.13			
Securitization Execution		101.13	Securitization Execution		100.63	Securitization Execution			Securitization Execution		95.38				
FHA	FHA		bp	Price	FHA		bp	Price	FHA		bp	Price			
	G-Fee	0.06%		G-Fee	0.06%		G-Fee	0.06%		G-Fee	0.06%				
	FHA Upfront		-1.75	FHA Upfront		-1.75	FHA Upfront		-1.75	FHA Upfront		-1.75			
	FHA Ongoing	1.30%	-6.50	FHA Ongoing	1.30%	-6.50	FHA Ongoing	1.30%	-6.50	FHA Ongoing	1.30%	-6.50			
	Cost		-2.50	Cost		-2.50	Cost		-2.50	Cost		-2.50			
	Servicing	0.25%	1.25	Servicing	0.25%	1.25	Servicing		0.25%	Servicing		1.25			
	Residual coupon	0.44%	2.20	Residual coupon	0.44%	2.20	Residual coupon		0.44%	Residual coupon		2.20			
	Pass-through (July Settle)	3.50%	103.50	Pass-through (July Settle)	3.50%	103.50	Pass-through (July Settle)		3.50%	Pass-through (July Settle)		103.50			
	Securitization Execution		96.20	Securitization Execution		96.20	Securitization Execution			Securitization Execution		96.20			
	Portfolio	Portfolio				Portfolio				Portfolio					
Funding Cost		2.40%		Funding Cost	2.40%		Funding Cost	2.40%		Funding Cost	2.40%				
Premium Amortization		0.39%		Premium Amortization	0.03%		Premium Amortization		-1.31%	Premium Amortization		-1.31%			
Option Cost		0.30%		Option Cost	0.30%		Option Cost		0.30%	Option Cost		0.30%			
Origination / Servicing Cost		0.40%		Origination / Servicing Cost	0.40%		Origination / Servicing Cost		0.40%	Origination / Servicing Cost		0.40%			
Credit Cost		0.03%		Credit Cost	0.15%		Credit Cost		1.50%	Credit Cost		1.50%			
Net Spread		0.73%		Net Spread	0.97%		Net Spread		0.96%	Net Spread		0.96%			
Loan Execution			101.96	Loan Execution		100.90	Loan Execution			Loan Execution		93.49			
PLS		Private Label Security Ex.:		101.50	Private Label Security Ex.:		101.00	Private Label Security Ex.:		NA					

Source: JPMorgan Securitized Products Research, Securitization Weekly (June 6, 2014)